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TAGS: ECON EFIN EINV ETRD HK CH
SUBJECT: Hang Seng Unimpressed by Rescue Bill, HKMA Measures Push HIBOR Down

REFS: A) HONG KONG 1823, B) HONG KONG 1801

¶1. Summary: Though the U.S. Senate approved the market rescue bill before the opening of the Hong Kong Stock Exchange trading day, local investors remained cautious. The Hang Seng Index failed to make a strong rebound. The five new measures implemented by Hong Kong Monetary Authority (ref A) to increase the market liquidity pushed the Hong Kong Interbank Overnight Rate (HIBOR) below 2 percent but the one month rate still topped 4 percent. Share prices of Hang Seng Bank, a wholly-owned subsidiary of HSBC, plunged 9 percent today as the bank admitted its exposure to Washington Mutual Bank's senior debt but refused to disclose the exact amount.

Market Rescue Bill Passage Expected

¶2. Hong Kong investors learned of the U.S. Senate's overwhelming passage of the market rescue bill prior to the opening of the Hong Kong Stock Exchange. But the Senate approval, which was widely expected, did not lead to a strong rebound for the Hang Seng Index. The Hang Seng Index opened 140 points lower than Tuesday's close (Wednesday was a national holiday) and lost as much as 385 points before rebounding. Increased buying in the late afternoon spurred investors to speculate on further gains. At market closing, the Hang Seng Index was up 1.08 percent or 194.90 points, closing at 18211.11. Daily trade totaled HKD 70 billion. Market gossip attributed the increased activity to investors seeking regional plays. With China's market's closed for one week during the Chinese National Day, Hong Kong is the next best option.

Hang Seng Bank down 9 percent on WaMu exposure

¶3. Hang Seng Bank, a wholly-owned subsidiary of HSBC, surprised the market today by admitting that it had some exposure to Washington Mutual Bank securities. Hang Seng Bank CEO Raymond Or had recently reassured investors that the Bank did not invest in structured products as he found them "too sophisticated." Nervous investors dumped Hang Seng stock when the Bank declined to disclose the exact amount of its exposure. A bank spokesman told English-language newspaper The Standard (October 2) that "if deemed necessary, we will make appropriate disclosures in accordance with regulatory requirements." Hang Seng Bank closed at HKD 131.60, down 8.8 percent. Hong Kong Monetary Authority (HKMA) officials told the press that the Hong Kong banking sector's total exposure to Washington Mutual Bank was about 0.05 percent of the total assets.

HIBOR softens but one and two month rates top 4 percent

¶4. HKMA's five new measures to increase liquidity for the interbank market (Ref A) successfully checked the HIBOR overnight rate from rising above two percent. At 4 pm, HIBOR, as quoted by Hang Seng bank, was 1.75 percent for overnight, 3.00 percent for one-week, 3.50 percent for 2-week, 4.28 percent for one-month, 4.05 percent for two-month, 3.80 percent for three-month, and 3.65 percent for six-month borrowing. Market observers speculated that the one-month

and two month rates might ease as foreign banks, short of Hong Kong dollars, begin to utilize the HKMA discount window. Citibank macroeconomist Joe Lo told the press that the HKMA measures had the potential to weaken the Hong Kong dollar exchange rate since foreign banks in Hong Kong might no longer need to sell US dollars into the spot market to boost Hong Kong dollar liquidity.

HKMA receives 3500 Lehman Minibond complaints

¶5. Secretary for Financial Services and the Treasury K.C. Chan told the press October 2 that the Association of Banks in Hong Kong will establish a special task force to resolve investor complaints surrounding the Lehman "minibonds." As of October 1, the Hong Kong Monetary Authority had received 3,500 complaints from investors alleging they were deceived or misled about the risk profile of the Lehman-issued "minibonds." At a meeting with Lehman "minibond" distributors, brokers and trustees, KC Chan urged the banks to devote additional resources to handle the complaints. Several media outlets reported that some distributor banks, including DBS and Dah Sing, have begun to negotiate a settlement with purchasers of the Lehman products.
Donovan